

August 06, 2019

Micron Electricals: Ratings reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based Limits	250.00	350.00	[ICRA]A1; reaffirmed
Total	250.00	350.00	

* Instrument details are provided in Annexure 1

Rationale

The rating reaffirmation factors in the robust revenue growth reported by Micron Electricals (Micron) in FY2019 (19.8% YoY), driven by healthy order inflows. Further, the firm has a healthy order book position (Rs. 746 crore as on March 31, 2019), which provides adequate revenue visibility for the near future. The rating also takes into account the favourable capital structure of the firm with nil debt. Steady revenue growth, limited capex requirements and absence of debt repayment obligations have resulted in strong cash flows for it. The company's liquidity position has remained healthy as reflected by the sizeable cash balances (Rs. 212 crore as on March 31, 2019). Further, the rating continues to take into consideration Micron's established track record of over four decades in the electrical-contracting business, its experienced management team, and a wide customer base that includes reputed real estate developers and information technology (IT) companies.

However, the rating is constrained by the limited diversification of revenue streams as Micron derives a significant proportion of its revenues from the cyclical commercial real estate industry, which exposes its operations to the risk of slowdown in this segment. Moreover, intense competition in the electrical-contracting industry and the low value-adding nature of business have resulted in modest profitability margins for the firm. Micron's profitability also remains vulnerable to raw material price volatility, given the fixed price nature of its contracts. Moreover, ICRA notes that the firm's working capital requirements are primarily funded through its sizeable customer advances and trade creditors and any significant decline in the same could impact its working capital intensity and liquidity. Further, the partnership nature of the firm exposes it to the risk of capital withdrawals by partners.

Key rating drivers

Credit strengths

Long and established track record of operations: Micron is a well-established firm with a proven track record of over 40 years in electrical contracting. As a result, it has achieved significant scale and has worked with many prominent real estate developers/IT firms in Karnataka.

Healthy growth in scale of operations: Micron's revenues have witnessed a healthy CAGR of 14.7% over the last five years, driven by healthy order inflows. The revenues in FY2019 grew by 19.8% YoY to Rs. 745 crore.

Ability to leverage on existing client relationships: Some of the large orders received by Micron in other states like Telangana, Tamil Nadu and Maharashtra are through existing clients in Bangalore. So, the firm has the opportunity to grow along with the clients in different locations.

Financial strength: The firm is debt free and has cash and bank balances of Rs. 212 crore as on March 31, 2019. It only has non-fund based limits, which are used to provide performance and advance payment guarantee to clients.

Healthy order book: Micron has orders of Rs. 746 crore in hand as of March 31, 2019, which provides adequate revenue visibility.

Credit challenges

Low value-added business: Relatively low value-added business with significant competitive pressures restricts margins. The clients being well aware of the cost structure often negotiate hard.

Limited diversification: Micron derives around 75% of its revenues from the IT and commercial real estate segments which exposes its business operations to slowdown in these segments. Moreover, the firm derives around 90% of its revenues from South Indian states, which subjects it to geographical-concentration risk.

Working capital funded by customer advances and creditors: Micron's working capital requirements are funded primarily through sizeable customer advances and trade creditors. Any significant decline in these may result in an increase in working capital intensity of the firm and impact its liquidity.

Intense competition: The industry is highly fragmented with the presence of a large number of electrical contractors. Besides, there is the potential threat of forward integration from product manufacturers like Havells and Philips.

Risk of capital withdrawals by partners: The firm's partnership nature exposes it to the risk of capital withdrawals from business by the partners in the form of partners' salary or PAT withdrawals, although the same was nil in FY2019.

Liquidity position

Given the steady growth in Micron's revenues, minimal capex requirements and the absence of debt repayment obligations, its cash flows have remained healthy. The firm reported free cash flows of Rs. 6.9 crore as on March 31, 2019. Further, Micron has cash balances to the tune of Rs. 212 crore as on March 31, 2019 (free cash of Rs. 112 crore), which highlights its robust liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

Micron, which was established in 1976, is an electrical contractor that primarily operates in the southern states of India. The firm has lately undertaken some contracts in some other parts of India such as Maharashtra and Madhya Pradesh. In addition to electrical contracting, the firm has diversified into providing mechanical, electrical and plumbing (MEP) services under one umbrella.

The firm undertakes MEP contracts in commercial and residential buildings, malls, airports, hotels, hospitals and educational institutions. Most of the work is taken up on turn-key basis. Some of the major customers of Micron include Amazon, Deloitte, Wipro, Karnataka Power Transmission Corporation Limited, Prestige Estates, Salarpuria Sattva Group and Larsen & Toubro.

For FY2019, Micron reported profit after tax (PAT) of Rs. 21.3 crore on an operating income (OI) of Rs. 745.4 crore (as per provisional financials) against PAT of Rs. 19.2 crore on an OI of Rs. 622.4 crore for FY2018.

Key financial indicators (Audited)

	FY2018	FY2019*
Operating Income (Rs. crore)	622.4	745.4
PAT (Rs. crore)	19.2	21.3
OPBDIT/OI (%)	4.0%	4.0%
RoCE (%)	25.1%	23.2%
Total Debt/TNW (times)	-	-
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	51.22	43.80

* Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

					Current Rating (FY2020)			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019 December 2018	Date & Rating in FY2018 June 2017	Date & Rating in FY2017 June 2016
1	Non-Fund Based Limits	Short Term	350.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA <i>Source: Micron</i>	Non-Fund based Limits	-	-	-	350.00	[ICRA]A1

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